

**REPORT OF THE AUDIT OF THE
CAMPBELL COUNTY
SHERIFF**

**For The Year Ended
December 31, 2002**



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CRIT LUALLLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Steven Pendery, Campbell County Judge/Executive

Honorable John D. Dunn, Jr., Campbell County Sheriff

Members of the Campbell County Fiscal Court

The enclosed report prepared by Carpenter, Mountjoy & Bressler, PSC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the Sheriff of Campbell County, Kentucky, for the year ended December 31, 2002.

We engaged Carpenter, Mountjoy & Bressler, PSC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Carpenter, Mountjoy & Bressler, PSC evaluated the Campbell County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE CAMPBELL COUNTY SHERIFF

**For The Year Ended
December 31, 2002**

Carpenter, Mountjoy & Bressler, PSC has completed the Campbell County Sheriff's audit for the year ended December 31, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The 75 % fund account balance decreased by \$349,502 from the prior calendar year, resulting in a cash surplus of \$136,658 as of December 31, 2002. Revenues decreased by \$241,268 from the prior year and disbursements increased by \$2,518.

Report Comments:

- The County Sheriff's Office Lacks Proper Segregation Of Duties
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Deposits:

As of November 30, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$7,257,603 of public funds uninsured and unsecured.

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Carpenter, Mountjoy & Bressler

Certified Public Accountants and Consultants

To the People of Kentucky

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Members of the Campbell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts and disbursements of the County Sheriff of Campbell County, Kentucky, and the statement of receipts, disbursements, and fund balances of the County Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2002. These financial statements are the responsibility of the County Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff prepares the financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the accompanying financial statements referred to above present fairly, in all material respects, the receipts and disbursements of the County Sheriff and the receipts, disbursements, and fund balances of the County Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2002, in conformity with the modified cash basis of accounting.

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Steven Pendery, Campbell County Judge/Executive

Honorable John D. Dunn, Jr., Campbell County Sheriff

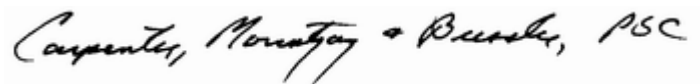
Members of the Campbell County Fiscal Court

In accordance with Government Auditing Standards, we have also issued a report dated November 25, 2003, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented comments and recommendations, included herein, which discusses the following report comments:

- The County Sheriff's Office Lacks Proper Segregation Of Duties
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Respectfully submitted,

A handwritten signature in cursive script that reads "Carpenter, Mountjoy & Bressler, PSC". The signature is written in dark ink on a light-colored background.

Carpenter, Mountjoy & Bressler, PSC

Audit fieldwork completed -
November 25, 2003

CAMPBELL COUNTY
JOHN D. DUNN, JR., COUNTY SHERIFF
STATEMENT OF RECEIPTS AND DISBURSEMENTS

For The Year Ended December 31, 2002

Receipts

State Fees for Services

Finance And Administrative Cabinet	\$ 149,693	
KLEFPF Grant	28,236	
Return of Fugitives	30,439	
Transportation	<u>435</u>	\$ 208,803

Circuit Court Clerk

Security Fees		95,690
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Fiscal Court

Postage	\$ 10,000	
Transportation	<u>2,588</u>	12,588

County Clerk

Delinquent Taxes		4,939
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Commission on Taxes

512,074

Sheriff's Fee On Taxes Collected

10% Additional Fees		59,968
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Fees Collected for Services:

Auto Inspections	\$ 36,975	
Serving Papers	91,666	
Carrying Concealed Deadly Weapon Permits	18,060	
Sheriff's Advertising Fees	<u>3,160</u>	149,861

Interest Earned

966

Total Receipts

\$ 1,044,889

The accompanying notes are an integral part of the financial statements.

CAMPBELL COUNTY
JOHN D. DUNN, JR., COUNTY SHERIFF
STATEMENT OF RECEIPTS AND DISBURSEMENTS
For The Year Ended December 31, 2002
(Continued)

Disbursements

Payments to State:

Carrying Concealed Deadly Weapon Permits \$ 11,770

Other Disbursements:

Postage 10,000

Travel Reimbursements 28,809

Total Allowable Disbursements \$ 50,579

Net Receipts \$ 994,310

Payments to State Treasurer:

75% Operating Fund \$ 794,717

25% County Fund 199,593 994,310

Balance Due at Completion of Audit \$ (0)

The accompanying notes are an integral part of the financial statements.

CAMPBELL COUNTY
JOHN D. DUNN, JR., COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER

For The Year Ended December 31, 2002

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2002	\$ 486,160	\$ 794	\$ 486,954
<u>Receipts</u>			
Fees Paid to State - Operating Funds (75%)	794,717		794,717
Fees Paid to State - County Funds (25%)		199,593	199,593
Total Funds Available	\$ 1,280,877	\$ 200,387	\$ 1,481,264
<u>Disbursements</u>			
County Fiscal Government	\$ -	\$ 199,593	\$ 199,593
Personal Services-			
Officials Statutory Maximum	79,996		79,996
Deputies' Salaries	632,119		632,119
Employee Benefits-			
Employer's Share Social Security	51,033		51,033
Employer's Share Retirement	68,038		68,038
Employer's Paid Health Insurance	56,240		56,240
Dental and Life Insurance	9,518		9,518
Unemployment	6,305		6,305
Contracted Services-			
Service Contracts	34,699		34,699
Materials and Supplies-			
Office Supplies	17,192		17,192
Other Charges-			
Communication Equipment	1,974		1,974
Dues	3,066		3,066
Vehicle Expense	29,025		29,025
Police Supplies	34,947		34,947
Telephones	10,531		10,531
Legal Expense	5,100		5,100
Consulting Fee	375		375
Bond	457		457
Insurance Premiums	19,532		19,532

The accompanying notes are an integral part of the financial statements.

CAMPBELL COUNTY

JOHN D. DUNN, JR., COUNTY SHERIFF

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES OF THE
SHERIFF'S OPERATING FUND AND COUNTY FUND WITH THE STATE TREASURER

For The Year Ended December 31, 2002

(Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Disbursements</u> (Continued)			
Capital Outlay-			
Office Equipment	40,198		40,198
Vehicle	43,874		43,874
Total Disbursements	\$ 1,144,219	\$ 199,593	\$ 1,343,812
Fund Balance - December 31, 2002	<u>\$ 136,658</u>	<u>\$ 794</u>	<u>\$ 137,452</u>

The accompanying notes are an integral part of the financial statements.

CAMPBELL COUNTY
JOHN D. DUNN, JR., COUNTY SHERIFF
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and periodically paid to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

B. Basis of Accounting

The financial statements have been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2002.

The Attorney General issued a letter which stated that some receipts of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are receipted in the 75 percent fund.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

CAMPBELL COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months and 6.34 percent for the last six months of the calendar year. Hazardous covered employees are required to contribute 8.0 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 30, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$7,257,603 of public funds uninsured and unsecured.

CAMPBELL COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002
(Continued)

Note 3. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of November 30, 2002.

	<u>Bank Balance</u>
FDIC Insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	3,000,000
Uncollateralized and uninsured	<u>7,257,603</u>
Total	<u>\$ 10,357,603</u>

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COMMENTS AND RECOMMENDATIONS

CAMPBELL COUNTY
JOHN D. DUNN, JR, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2002

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On November 30, 2002, \$7,257,603 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

Lacks Adequate Segregation Of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition under standards established by the American Institute of Certified Public Accountants. Due to the entity's diversity of official operations and budget restrictions the official has limited options for establishing an adequate segregation of duties. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore, accepts the degree of risk for lack of adequate segregation of duties. However, we have judged the lack of an adequate segregation of duties as a reportable condition and a material weakness.

The following are some compensating controls which could offset the lack of adequate segregation of duties:

1. Strong and direct supervision by the elected official over receipts.
 - a. Cash recounted and deposited by the elected official.
 - b. Periodic surprise cash counts performed by the elected official.
 - c. Reconciliation of other monthly reports to source documents and receipts and disbursements ledgers.
2. Strong and direct supervision by the elected official over disbursements.
 - a. Require that all disbursement checks must be signed by two people, with one being the elected official.
 - b. Examination of payroll checks and distribution of those checks by the elected official.
 - c. Mailing of disbursement checks by the official.
3. General Assets
 - a. Requirement that employees be cross-trained to perform other duties.
 - b. Requirement that employees take a mandatory vacation each year.
 - c. Preparation of bank reconciliation by the official.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Carpenter, Mountjoy & Bressler

Certified Public Accountants and Consultants

The Honorable Steven Pendery, Campbell County Judge/Executive
The Honorable John D. Dunn, Jr., Campbell County Sheriff
Members of the Campbell County Fiscal Court

Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of The Financial Statements Performed In Accordance With Government Auditing Standards

We have audited the Campbell County Sheriff for the year ended December 31, 2002, and have issued our report thereon dated November 25, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Campbell County Sheriff's financial statements for the year ended December 31, 2002, are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and is described in the accompanying comments and recommendations.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Campbell County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comments and recommendations.

- The County Sheriff's Office Lacks Proper Segregation Of Duties

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

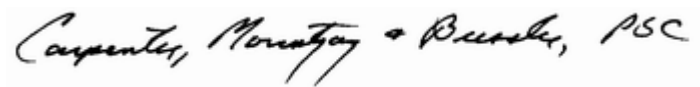
Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the following reportable condition to be a material weakness.

- The County Sheriff's Office Lacks Proper Segregation Of Duties

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Carpenter, Mountjoy & Bressler, PSC". The signature is written in a cursive, flowing style.

Carpenter, Mountjoy & Bressler, PSC

Audit fieldwork completed -
November 25, 2003

